

BILL # SB 1165

TITLE: AHCCCS; outpatient hospital; reimbursement

SPONSOR: Allen

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Timothy Sweeney

FISCAL ANALYSIS

Description

This legislation revises AHCCCS' reimbursement methodology and reduces the reimbursement amounts for outpatient hospital services. Currently, reimbursement for outpatient hospital services is based on "cost-to-charge" ratios that vary between hospitals. Effective July 1, 2004, this legislation would reduce these ratios by 10%, and beginning January 1, 2005, this legislation requires AHCCCS to establish and implement a fee-for-service schedule for outpatient hospital reimbursement.

Estimated Impact

This legislation would generate General Fund savings of \$(10,479,700) in FY 2005, and \$(13,972,900) in FY 2006, relative to the FY 2005 JLBC budget estimates for AHCCCS. Based on AHCCCS estimates, this savings amount assumes that the expected October 1, 2004 capitation rate increase would be smaller by approximately 1.5% than it would be without this legislation. The FY 2005 savings amount reflects only ¾-year savings, while the FY 2006 savings amount reflects the annualization of the FY 2005 savings.

	FISCAL YEAR		
	2004	2005	2006
General Fund	\$-0-	\$(10,479,700)	\$(13,972,900)
Federal Funds	-0-	<u>(21,716,000)</u>	<u>(28,954,700)</u>
Total	\$-0-	\$(32,195,700)	\$(42,927,600)

The Governor's FY 2005 budget proposal already incorporates these savings.

Analysis

Hospital reimbursement for outpatient services is currently based on hospital specific "cost-to-charge" ratios. These ratios differ between hospitals and are calculated based on a hospital's billed charges for specific services. Due to the unique cost-to-charge ratios, reimbursement levels for a given service can vary between hospitals. Additionally, because AHCCCS reimbursement is in part based on a hospital's billed charges, an increase in a hospital's billed charges will increase the reimbursement level.

Initially, this legislation would reduce each hospital's cost-to-charge ratio by 10%, effective July 1, 2004. Next, AHCCCS would develop a fee-for-service schedule for the reimbursement of outpatient hospital services, which would then be implemented on January 1, 2005. These changes will reduce the reimbursement levels the health plans must pay to hospitals. In turn, the capitation rates AHCCCS pays to the health plans will decline to reflect the lower outpatient hospital costs to the health plans. Currently, the Executive estimates that these changes would reduce base capitation rates by approximately 1.5%, or that the expected capitation rate inflation in FY 2005 would be reduced by 1.5%.

AHCCCS capitation rates are set on a contract year basis (which coincides with the federal Fiscal Year) from October 1 – September 30. The changes proposed in this legislation would not affect the current capitation rates, which are set through September 30, 2004. New capitation rates will be implemented on October 1, 2004, however, and the changes proposed in

this legislation would be taken into account while the new rates are being established. Therefore, the reimbursement changes included in this legislation would only be fully effective for 9 months of FY 2005.

Local Government Impact

The changes proposed in this legislation would directly decrease the overall outpatient reimbursement to hospitals. Some hospitals will experience larger reductions than others, however, and it is possible that some hospitals would see no change or even an increase in the reimbursement they receive. It cannot be determined what net effect, if any, these changes would have on any county-operated hospitals.

2/6/04